



COMMAND FINANCIAL SPECIALIST

# CHRONICLE

FLEET AND FAMILY SUPPORT CENTERS OF HAMPTON ROADS, VIRGINIA

<b>TIME SENSITIVE</b>
<i>Please pass quickly</i>
CO/OIC _____
XO _____
CMC _____
CFS _____

**SPRING 2004**

## Retirement Planning

Here is virtually everything you need to know about a 401(k) plan:

- It's one of the very best ways to save for your retirement. Few alternatives are better.
- You should start contributing to your retirement plan as soon as possible.
- If you are more than ten years away from true retirement, you'd probably fare well by putting all of the money that you defer into an equity index fund.

How's that for straight and simple? Now, why am I talking about a 401(k)? That's for civilians, right? Nope – your Thrift Savings Plan (TSP) is a 401(k) by another name. TSP falls under all the same IRS regulations as a civilian 401(k) and open season is upon us again.

Let's have a little history lesson: In 1978, section 401(k) of the Internal Revenue Service Code authorized the use of a new type of deferred compensation retirement savings plan for the benefit of employees of most private firms. Employees who participate in employer-sponsored 401(k) plans choose to defer part of their salary, and the employees themselves determine how much of their salary

to defer and how to invest the money. In 1986, the Federal Government made a 401(k) plan available to federal civilian employees. They called it the Thrift Savings Plan. This same plan was made available to active duty and reservists in 2001.

Participants choose to take home smaller paychecks because there are several major advantages to saving for retirement through a 401(k), including:

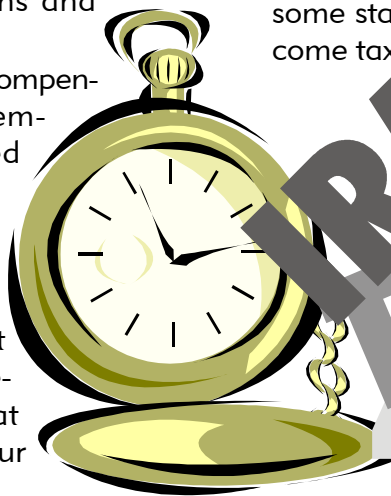
- Immediate tax savings on contributions – it lowers your taxable base today.
- Tax-deferral of any investment earnings – you don't pay taxes on those earnings until you draw on the money.
- In-service loans and withdrawals.

When you defer compensation into an employer-sponsored retirement plan, you immediately start paying less to Uncle Sam. The amount that you decide to defer is money that comes out of your

## HOT TOPICS

- What will your retirement look like?
- Financial Check up
- Ten Principles of Successful Investing
- Ten Questions to Ask a Financial Planner

paycheck before income taxes, and the money goes right into an account with your name on it. That's money that you're keeping out of the hands of the federal and state governments until you retire. (And, hey, you may decide to retire in some state where there are no income taxes.)



## CFS Material Website

This website contains the electronic Financial Planning Worksheet and other training materials.  
[www.nsa-norva.navy.mil/ffsc/cfs/](http://www.nsa-norva.navy.mil/ffsc/cfs/)

# TOOLBOX

## TSP Fast Facts

Open enrollment season is 15 April through 30 June. Service members can enroll on-line through MyPay or through the command using the TSP-U-1 form available at [www.tsp.gov](http://www.tsp.gov).

Service members can elect to defer 1-9% of base pay. After that, they can elect up to 100% of special pays and/or bonuses.

## Past 12 months returns\*

(4/1/2003 – 3/31/2004)

G	Fund	4.09%
F	Fund	5.29%
C	Fund	34.93%
S	Fund	56.44%
I	Fund	56.56%

\*Historical returns are no guarantee of future returns.

For additional information, visit the TSP website or the Financial Educators at your Fleet and Family Support Center.

Just as important, because the taxes on the investment earnings are also deferred, you're not paying any taxes on anything that your deferred compensation earns until years from now when you're retired.

Another feature of TSP and some 401(k) plans is that individuals can lend back to themselves some of the money that has been deferred for something important like buying a house or meeting expenses should an emergency arise. This is money that you can borrow from yourself, rather than from the bank.

Wise investors, though, will borrow from a retirement plan only as a last resort. That's because we may change jobs before the loan is repaid. If we do, that loan is immediately payable with interest. Fail to come up with the necessary cash for repayment, and there's a stiff price to be paid. Uncle Sam will call the unpaid debt a "deemed distribution." It will be taxed and, if you are younger than 59 1/2, penalized 10% as well for early withdrawal.

Additionally, the interest we pay ourselves on the loan comes from money on which we've already paid taxes. But for the 401(k) purposes, it will count as untaxed earnings. This means we will pay taxes on that money again at retirement when we make withdrawals from the account. Bummer on both counts! Thus, while the loan feature is attractive to some, many think it's really something to use when all else fails.

Now, most folks go on to work elsewhere once they finish their military service, whether they retire or simply separate. So here's one of the potential benefits of 401(k) that civilians might enjoy.

There's a chance that your employer will give you money for participating in the company plan. About 35% of employers match a portion of the money deferred by their employees. That's right – these employers are giving away money. Woo-hoo! This is a good thing to explore when you are examining the benefits package from a future employer. Find out whether the employer is providing matching contributions. If it is, you absolutely, should commit yourself to deferring every dollar you can up to the amount that your employer is willing to match.

How big a difference can employer matching make? Well, if your employer is matching your contributions dollar for dollar, you'll be, of course, doubling the amount of money put away for your retirement.

And that's the ultimate reason for contributing to your 401(k): more money for retirement. Social Security pays, on average, less than \$11,000 a year. And fewer and fewer employers offer traditional pension plans. So if you want to retire, you'll need to rely mostly on personal savings. Using your 401(k) is one of the best ways to build that nest egg.

## Investing “Must-Knows”

In investing, as in sports, strength in fundamentals is the first step to becoming great. Here are some basic concepts everyone should know about investing, listed in the order a person may encounter them throughout their investing career. Once you're familiar with these, you will have established a strong foundation and you'll have a better idea of the areas you need to work on in order to take your investing game to the next level.

### **The lottery takes away 50% of your money every year, on average.**

The market returns you about 10%. EXAMPLE: Let's say you spend \$10 weekly on lottery tickets. Not too bad, right? Well, after 10 years, the \$5,200 you “invested” will have netted you about \$2,600 in losses. If you'd dropped that same \$10 into an index fund that earned 10% annually, however, you would have about \$9,116 in your account – meaning you're up \$3,916 instead of down \$2,600. That means our investor has \$6,516 more than our lotto player, and \$3,916 more than someone who kept the money under his mattress.

### **Time is your greatest ally.**

Einstein has been credited with saying that compound interest is “the greatest mathematical discovery of all time.” Now, many may say his *little* theory of general relativity is tops, but compound interest is a close second. Let's continue our example, but roll the time period out several years. After 20 years, our investor has accumulated \$32,761. After 50, that measly \$520 in annual con-

tributions has ballooned into \$665,756. The lotto player has turned that same \$26,000 outlay into \$13,000. Unless, of course, he beat the 120 million-to-1 odds and hit the jackpot. (Like that's gonna happen!)

### **Know what you do know and what you don't know.**

In other words, stay within your circle of competence, but aim to expand it by learning more and filling in the holes in your knowledge. Recognize whether you need to increase your knowledge of an industry or learn how to read a balance sheet. This makes so much sense, and yet time and again we're tempted to venture into unfamiliar territory without a guide or map.

### **Know what your companies do.**

It sounds like a given, but you'd be surprised at the number of people who have no real idea how some of the companies they own actually make money, what the actual “business” is. You must know your companies' products and services and how they stack up against the competition. Otherwise, how can you anticipate the future?

### **Acknowledge your personal tolerance for pain.**

A frequent mistake is putting too much money into one stock and then obsessing over it. It's probably better to have that money distributed into four different stocks, which you follow quarterly. You could say, then, that a good diversification policy is to spread your money out as much as you need in order to rest easily if you only track your companies quarter by quarter (not day to day or hour by hour).

# FYI

## Small Ideas – Big Gains

Since we are talking about retirement planning, what about using some of that “after-tax” money, too. That's the stuff rattling around in your pockets.

Would an additional \$67,815 be a help in retirement? It doesn't take a lot of money or personal sacrifice to get that. In fact, it's the simplest and most-proven way to get richer. To start, all you have to do is take your pocket change at the end of the day and drop it into a jar. If you can do that, and you put away about \$1 a day, that's just \$7 a week. At the end of the month, you'll have about \$30.

Since you've already paid the income taxes on that pocket money, deposit the money from your jar into a Roth IRA account where it can grow tax-free – and more importantly – be withdrawn tax-free in the future.

That same \$30 a month, growing tax-free for 30 years, with a 10% annual return will be worth \$67,815. Not bad for pocket change.

Now, extend this concept to other parts of your life – trimming a few living expenses and investing the savings – and you could end up with an enviable retirement nest egg.

For more examples, check out the multitude of savings calculators out on the web such as at MSN Money, Yahoo Finance, American Savings Education Council, and Navy Federal Credit Union, to name a few.

# Personal Financial Management Classes for May-July 2004

## ART OF MONEY MANAGEMENT

18 & 20 MAY 5:30-9:00 pm Little Creek  
27 MAY 7:30 am-3:30 pm Norfolk  
1 & 3 JUN 8:30 am-noon Yorktown,  
22 JUN 8:00 am-4:00 pm Oceana  
24 JUN 7:30 am-3:30 pm Norfolk  
15 JUL 7:30 am-3:30 pm Norfolk  
28 JUL 8:00 am-4:00 pm Oceana

## BANKING AND FINANCIAL SERVICES

24 JUN 10:00-11:30 am Newport News  
9 JUN 10:00-11:30 am Norfolk  
13 JUL 1:00-2:30 pm Northwest  
14 JUL 10:00-11:30 am Norfolk

## THE BASICS OF RETIREMENT PLANNING

19 MAY 8:30-10:00 am Norfolk  
1 JUN 1:00-2:30 pm Northwest  
16 JUN 8:30-10:00 am Norfolk  
23 JUN 10:00-11:30 pm Oceana  
21 JUL 8:30-10:00 am Norfolk

## CAR BUYING STRATEGIES

8 JUN 10:00-11:30 am Oceana  
9 JUN 1:00-2:30 pm Norfolk  
14 JUL 1:00-2:30 pm Norfolk  
15 JUL 6:00-7:30 pm Oceana  
20 JUL 10:00-11:30 am Northwest

## COMMAND FINANCIAL SPECIALIST (CFS) TRAINING

17-21 MAY (M-F) 7:30 am-4:00 pm Oceana  
14-18 JUN (M-F) 7:30 am-4:00 pm Norfolk  
14-18 JUN (M-F) 7:30 am-4:00 pm  
12-16 JUL (M-F) 7:30 am-4:00 pm Little Creek  
12-16 JUL (M-F) 7:30 am-4:00 pm Newport News  
19-23 JUL (M-F) 7:30 am-4:00 pm Norfolk  
19-23 JUL (M-F) 7:30 am-4:00 pm Ocean

## COMMAND FINANCIAL SPECIALIST (CFS) FORUM

18 MAY 10:00-11:30 am Yorktown  
27 MAY 1:00-2:30 pm Little Creek  
1 JUN 10:00-11:30 am Norfolk  
27 JUL 10:00-11:30 am Oceana

## CONSUMER AWARENESS

14 JUL 10:00-11:30 am Oceana

## CREDIT MANAGEMENT

26 MAY 10:00-11:30 am Oceana  
9 JUN 8:30-10:00 am Norfolk  
14 JUL 8:30-10:00 am Norfolk  
20 JUL 2:00-3:30 pm Little Creek

## DIVISION OFFICER FINANCIAL LEADERSHIP SEMINAR

25 MAY 7:30 am-4:00 pm Norfolk  
3 JUN 7:30 am-4:00 pm Little Creek  
29 JUN 7:30 am-4:00 pm Norfolk  
12 JUL 7:30 am-4:00 pm Oceana  
27 JUL 7:30 am-4:00 pm Norfolk  
29 JUL 7:30 am-4:00 pm Yorktown

## FINANCIAL RESPONSIBILITIES IN THE MILITARY

6 JUL 10:00-11:30 am Oceana

## SAVINGS AND INVESTMENTS

9 JUN 2:30-4:00 pm Norfolk  
15 JUN 2:00-3:30 pm Little Creek  
28 JUN 1:00-2:30 pm Northwest  
28 JUN 10:00-11:30 am Oceana  
14 JUL 2:30-4:00 pm Norfolk

## TSP — YOUR KEY TO FINANCIAL INDEPENDENCE

17 MAY 9:00-10:30 am Northwest  
19 MAY 10:00-11:30 am Norfolk  
27 MAY 8:00-9:30 am Newport News  
7 JUN 10:00-11:30 am Oceana  
9 JUN 9:00-10:30 am Newport News  
16 JUN 10:00-11:30 am Norfolk  
22 JUN 9:30-11:00 am Little Creek  
21 JUL 10:00-11:30 am Norfolk  
26 JUL 1:00-2:30 pm Oceana

FFSC Website: [www.ffscnorva.navy.mil](http://www.ffscnorva.navy.mil)

CFS Material Website: [www.nsa-norva.navy.mil/ffsc/cfs/](http://www.nsa-norva.navy.mil/ffsc/cfs/)

## FLEET AND FAMILY SUPPORT CENTERS of Hampton Roads, Virginia

FFSC Little Creek  
1450 D Street  
Norfolk, VA 23521-2444  
462-7563

FFSC Norfolk  
7928 14th Street, Suite 102  
Norfolk, VA 23505-1219  
444-2102

FFSC, NSA Northwest Annex  
4504 Relay Rd, Bldg 374  
Chesapeake, VA 23322-4102

FFSC Oceana  
1896 Laser Road, Suite 120  
Virginia Beach, VA 23460-2281  
433-2912

FFSC Yorktown/Newport News  
PO Drawer 160  
Yorktown, VA 23691-0160  
887-4606/688-NAVY

[www.ffscnorva.navy.mil](http://www.ffscnorva.navy.mil)

## DEPARTMENT OF THE NAVY Fleet and Family Support Centers of Hampton Roads, Virginia

Official Business

RETURN SERVICE REQUESTED